

KINGSTREE NURSING FACILITY, INC.

KINGSTREE, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 1998
AC# 3-KGS-J7**

REPORT ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 14, 1999

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Kingstree Nursing Facility, Inc., for the contract periods beginning October 1, 1998 and for the twelve month cost report period ended September 30, 1997, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Kingstree Nursing Facility, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, Cost of Capital Reimbursement Analysis, and the Comments and Recommendations sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Kingstree Nursing Facility, Inc. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
May 14, 1999

The South Carolina Department of Health and Human Services has not received formal approval from the United States Health Care Financing Administration (HCFA) of Attachment 4.19D of the South Carolina State Plan under Title XIX (Medicaid) for the contract periods beginning October 1, 1998, as required by regulations of the United States Department of Health and Human Services (HHS). The effects of any adjustments that may be necessary if the State Plan, as submitted, is modified to receive the approval of HCFA cannot presently be determined.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA
State Auditor

KINGSTREE NURSING FACILITY, INC.

Computation of Rate Change
For the Contract Periods
Beginning October 1, 1998
AC# 3-KGS-J7

	<u>10/01/98- 11/30/98</u>	<u>Beginning 12/01/98</u>
Interim reimbursement rate (1)	\$89.90	\$90.65
Adjusted reimbursement rate	<u>84.89</u>	<u>85.64</u>
Decrease in reimbursement rate	<u>\$ 5.01</u>	<u>\$ 5.01</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 8, 1998

KINGSTREE NURSING FACILITY, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1998 Through November 30, 1998
AC# 3-KGS-J7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$37.29	\$46.64	
Dietary		9.19	9.93	
Laundry/Housekeeping/Maint.		<u>7.73</u>	<u>8.11</u>	
Subtotal	<u>\$4.53</u>	54.21	64.68	\$54.21
Administration & Med. Rec.	<u>\$1.22</u>	<u>9.68</u>	<u>10.90</u>	<u>9.68</u>
Subtotal		63.89	<u>\$75.58</u>	63.89
<u>Costs Not Subject to Standards:</u>				
Utilities		1.99		1.99
Special Services		2.18		2.18
Medical Supplies & Oxy.		5.07		5.07
Taxes and Insurance		1.33		1.33
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$74.46</u>		74.46
Inflation Factor (3.60%)				2.68
Cost of Capital				5.75
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				1.22
Cost Incentive				4.53
Effect of \$1.75 Cap on Cost/Profit Incentives				(4.00)
Minimum Wage Add On				<u>.25</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$84.89</u>

KINGSTREE NURSING FACILITY, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Periods Beginning December 1, 1998
AC# 3-KGS-J7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$37.29	\$46.64	
Dietary		9.19	9.93	
Laundry/Housekeeping/Maintenance		<u>7.73</u>	<u>8.11</u>	
Subtotal	<u>\$4.53</u>	54.21	64.68	\$54.21
Administration & Medical Records	<u>\$1.22</u>	<u>9.68</u>	<u>10.90</u>	<u>9.68</u>
Subtotal		63.89	<u>\$75.58</u>	63.89
<u>Costs Not Subject to Standards:</u>				
Utilities		1.99		1.99
Special Services		2.18		2.18
Medical Supplies & Oxygen		5.07		5.07
Taxes and Insurance		1.33		1.33
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$74.46</u>		74.46
Inflation Factor (3.60%)				2.68
Cost of Capital				5.75
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				1.22
Cost Incentive				4.53
Effect of \$1.75 Cap on Cost/Profit Incentives				(4.00)
Minimum Wage and CNA Add Ons				<u>1.00</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$85.64</u>

KINGSTREE NURSING FACILITY, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1997
AC# 3-KGS-J7

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$ 963,171	\$ -	\$ 3,052(3) 26,839(4) 2,091(4) 985(5)	\$ 930,204
Dietary	250,578	-	3,187(4) 18,193(5)	229,198
Laundry	8,606	-	15(4)	8,591
Housekeeping	126,277	-	3,388(4)	122,889
Maintenance	62,262	-	908(4)	61,354
Administration & Medical Records	250,584	-	5,000(2) 3,624(4) 535(4)	241,425
Utilities	51,920	-	2,289(6)	49,631
Special Services	54,350	-	1(7)	54,349
Medical Supplies & Oxygen	174,186	-	19,214(3) 28,607(7)	126,365
Taxes & Insurance	34,261	-	986(5)	33,275
Legal Fees	-	-	-	-
Cost of Capital	<u>145,368</u>	<u>353(8)</u>	<u>2,406(1)</u>	<u>143,315</u>
Subtotal	2,121,563	353	121,320	2,000,596

KINGSTREE NURSING FACILITY, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1997
AC# 3-KGS-J7

<u>EXPENSES</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Debit	Adjustments Credit	Adjusted Totals
Ancillary	14,634	-	-	14,634
Non-Allowable	108,567	2,406(1) 22,266(3) 40,587(4) 20,164(5) 2,289(6) <u>28,608(7)</u>	353(8)	224,534
Total Operating Expenses	<u>\$2,244,764</u>	<u>\$116,673</u>	<u>\$121,673</u>	<u>\$2,239,764</u>
TOTAL PATIENT DAYS	<u>24,944</u>	<u>-</u>	<u>-</u>	<u>24,944</u>
TOTAL BEDS	<u>70</u>			

KINGSTREE NURSING FACILITY, INC.
Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-KGS-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$359,971	
	Nonallowable	2,406	
	Accumulated Depreciation		\$ 2,249
	Other Equity		357,722
	Cost of Capital		2,406
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Retained Earnings	6,667	
	Medical Records		5,000
	Accounts Payable		1,667
	To properly charge expense applicable to the current and prior period HIM-15-1, Section 2302.1		
3	Nonallowable	22,266	
	Nursing		3,052
	Medical Supplies		19,214
	To disallow expense due to lack of adequate documentation HIM-15-1, Section 2304		
4	Nonallowable	40,587	
	Nursing		26,839
	Restorative		2,091
	Dietary		3,187
	Laundry		15
	Housekeeping		3,388
	Maintenance		908
	Administration		3,624
	Medical Records		535
	To adjust fringe benefits and related allocation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

KINGSTREE NURSING FACILITY, INC.
Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-KGS-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable	20,164	
	Nursing		985
	Dietary		18,193
	Taxes and Insurance		986
	To remove cost not related to patient care HIM-15-1, Section 2102.3		
6	Nonallowable	2,289	
	Utilities		2,289
	To remove expense related to non- reimbursable cost center HIM-15-1, Sections 2102.3 and 2328		
7	Nonallowable	28,608	
	Medical Supplies		28,607
	Special Services		1
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
8	Cost of Capital	353	
	Nonallowable		353
	To adjust capital return to allowable State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$483,311</u>	<u>\$483,311</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

KINGSTREE NURSING FACILITY, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1997
AC# 3-KGS-J7

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.1814</u>
Deemed Asset Value (Per Bed)	34,069
Number of Beds	<u>70</u>
Deemed Asset Value	2,384,830
Improvements Since 1981	57,141
Accumulated Depreciation at 9/30/97	<u>(393,782)</u>
Deemed Depreciated Value	2,048,189
Market Rate of Return	<u>0.067</u>
Total Annual Return	137,229
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	137,229
Depreciation Expense	6,086
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	143,315
Total Patient Days (Actual)	<u>24,944</u>
Cost of Capital Per Diem	\$ <u><u>5.75</u></u>

KINGSTREE NURSING FACILITY, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1997
AC# 3-KGS-J7

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$2.00
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$5.99</u>
Reimbursable Cost of Capital Per Diem	\$5.75
Cost of Capital Per Diem	<u>5.75</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>

COMMENTS AND RECOMMENDATIONS

Our agreed-upon procedures identified certain conditions that we have determined to be subject to correction or improvement. We believe these conditions should be brought to your attention.

I. Transaction Classification

The Provider classified a significant number of transactions to improper accounts and cost centers.

Guidance for the proper classification of transactions is provided in the South Carolina Department of Health and Human Services Medicaid Nursing Home Accounting and Reporting Manual (Expense Crosswalk), the State Plan under Title XIX of the Social Security Act, Medicaid Bulletins and South Carolina Department of Health and Human Services directives.

By failing to classify transactions in accordance with the administering agency's guidelines, the Provider misstated several accounts and cost centers.

We recommend the Provider establish and implement necessary controls to ensure that all transactions are properly classified in accordance with South Carolina Department of Health and Human Services guidelines.

II. Vending Machine and Meal Sales

Income received from vending machine and meal sales were not deposited in the facility operating account. Funds generated from these sales were retained by the owners and used to make minor purchases for the facility, similar to a petty cash fund.

A system of good internal accounting control requires that all cash received be deposited intact.

By failing to deposit these receipts, the Provider is unable to readily document the income derived from vending machine and meal sales, and has understated income and overstated reimbursable expenses.

We recommend the Provider establish and implement the necessary controls to ensure that all cash received is deposited timely and intact.